

**AVERAGE FM STATION IN MARKET  
WITH \$5 MILLION IN REVENUE**

**EXHIBIT C**

**OPERATING EXPENSE ANALYSIS**

Initial Operating Expenses as a Percentage of Revenue

Engineering	5.0%
Programming & Production/News	20.0%
Sales/Advertising & Promotion	30.0%
General and Administrative	30.0%

<u>Annual Percentage Increase</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>	<u>Year 8</u>
Technical	0.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Programming	0.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Sales	0.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
General and Administrative	0.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

Operating Expenses

Technical	\$25,650	\$26,420	\$27,212	\$28,028	\$28,869	\$29,735	\$30,627	\$31,546
Programming	102,600	106,704	110,972	115,411	120,027	124,829	129,822	135,015
Sales	153,900	160,056	166,458	173,117	180,041	187,243	194,733	202,522
General and Administrative	153,900	160,056	166,458	173,117	180,041	187,243	194,733	202,522

Percentage Adjustments for DARS Impact

Technical	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Programming	1.3%	1.3%	1.3%	1.3%	1.5%	1.5%	1.5%	1.5%
Sales	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
General and Administrative	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Operating Expenses with DARS Impact

Technical	\$25,650	\$26,420	\$27,212	\$28,028	\$28,869	\$29,735	\$30,627	\$31,546
Programming	103,883	108,038	112,359	116,854	121,828	126,701	131,769	137,040
Sales	154,670	160,856	167,291	173,982	180,941	188,179	195,706	203,535
General and Administrative	153,900	160,056	166,458	173,117	180,041	187,243	194,733	202,522

Note: Sales expenses are exclusive of Agency and Representatives Commissions

**AVERAGE FM STATION IN MARKET  
WITH \$5 MILLION IN REVENUE**

**EXHIBIT D**

**OPERATING INCOME ANALYSIS**

<u>Without DARS Impact</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>	<u>Year 8</u>
Net Revenues	\$513,000	\$544,037	\$576,951	\$611,856	\$648,874	\$688,130	\$729,762	\$773,913
Operating Expenses	<u>436,050</u>	<u>453,236</u>	<u>471,101</u>	<u>489,673</u>	<u>508,979</u>	<u>529,050</u>	<u>549,914</u>	<u>571,605</u>
Operating Income	\$76,950	\$90,801	\$105,850	\$122,184	\$139,894	\$159,081	\$179,848	\$202,308
Operating Margin	15.0%	16.7%	18.3%	20.0%	21.6%	23.1%	24.6%	26.1%
<u>With DARS Impact</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>	<u>Year 8</u>
Total Net Revenues	\$512,958	\$543,927	\$576,711	\$611,362	\$648,037	\$686,767	\$727,397	\$769,811
Operating Expenses	<u>438,102</u>	<u>455,370</u>	<u>473,320</u>	<u>491,981</u>	<u>511,680</u>	<u>531,858</u>	<u>552,835</u>	<u>574,642</u>
Operating Income	\$74,856	\$88,557	\$103,390	\$119,381	\$136,357	\$154,908	\$174,562	\$195,168
Operating Margin	14.6%	16.3%	17.9%	19.5%	21.0%	22.6%	24.0%	25.4%
Operating Income Difference	\$2,094	\$2,244	\$2,460	\$2,802	\$3,538	\$4,172	\$5,286	\$7,140
Percentage Difference	-2.7%	-2.5%	-2.3%	-2.3%	-2.5%	-2.6%	-2.9%	-3.5%

## **8. Impact of New Technologies on Existing Technologies- Two Examples**

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The following cases illustrate the effect of the entry of a new technology in a communications industry on the existing older technology. In both examples, the new technology has successfully entered the market without creating a significant negative impact on the existing technology. The first case looks at the impact of cable television on terrestrial broadcast television, while the other examines the impact of DBS (direct broadcast satellite) technology on cable.

### **Case #1 Cable Television and Broadcast Television**

The first cable television systems, called CATV or community antenna television were built during the period from 1948 to 1964, mostly in small cities and towns where off-air terrestrial television was limited and reception was poor. CATV systems basically provided reception service, offering up to 12 channels with no unique programming. Systems generally enjoyed high levels of penetration, ranging from approximately 50% to 80% of homes passed, and cable rates were low. The average monthly cable rate from 1960-1964 was \$5.00 (*The Cable TV Financial Databook*, Paul Kagan Associates).

During the period from 1965 to 1972, cable systems were built in medium-sized markets, importing distant signals via terrestrial microwave. Rulings by the Federal Communications Commission (FCC) in 1965 and 1966 initiated a regulatory period that lasted two decades. FCC constraints were placed on importing distant signals which inhibited the construction of systems in the largest 100 markets. In 1972, the FCC eased its restrictions on signal importation, thereby making it feasible for cable television operators to enter the nation's top 100 markets with differentiated product.

Satellite delivered premium television services (HBO, Showtime) and Superstations (WTBS) were introduced in 1975. Satellite transmissions and coaxial cable distribution provided the first sustained challenge to the virtual dominance of television by the three broadcast networks (ABC, CBS, NBC) and their affiliate stations.

During the mid- to late- 1970's, new 24- to 36-channel cable TV systems emerged as a result of new communications satellite services. Significant increases in programming options allowed cable systems to attract ample numbers of subscribers and to attain profitability even where off-air broadcast reception and leisure-time options were plentiful. The smallest 50 of the top 100 U.S. markets were cabled first, followed by the larger metropolitan areas, and by 1983 the remaining major markets were franchised.

In 1984, Congress enacted the first comprehensive cable legislation, the Cable Communications Policy Act of 1984. The Act removed local rate regulation in all systems except for cable systems in areas not subject to effective competition. After a transition period in 1986, rate deregulation was implemented in January 1987. During the period 1984 through the early 1990's, the mix of cable offerings and pricing changed as growth in premium channel subscriptions slowed and local constraints on basic service rate increases were removed.

In 1992, the Cable Television Consumer Protection and Competition Act was passed, and in September 1993, the first of the FCC-directed rate roll-backs occurred.

Cable television compliments and competes with broadcast television. By distributing local TV signals to homes that could not receive them clearly and consistently, cable expands the reach and potential audience for broadcast television. By creating and distributing new cable programming (HBO, CNN, MTV, Nickelodeon, The Discovery Channel, U.S.A., Arts & Entertainment , C-SPAN and many more), cable competes with broadcast networks and local TV stations for audiences and advertising revenues.

As cable penetration, ratings and revenues have climbed, the broadcast television industry has maintained its leadership position in TV ratings and share. (Table 2.1 and 2.3) Nielsen ratings for the individual broadcast networks, including relative newcomer FOX, are significantly higher than ratings for any cable channel. In May, 1995, the prime time ratings for the broadcast channels averaged about 7.9, while the most heavily viewed cable channel received a rating of 2.6. (Table 2.2)

**Table 2.1 Total Day Ratings- Broadcast and Cable Channels**

Year	Network-Affiliated Stations	Independent Stations (excluding Superstations)	All Broadcast Television Stations	Basic Cable Channels	Pay Cable Channels	All Cable Channels
1984	19.4	4.8	24.1	2.0	1.8	3.8
1985	19.4	4.6	24.0	2.3	1.9	4.2
1986	19.5	4.8	24.4	2.5	1.5	4.0
1987	18.0	4.8	22.8	3.2	1.8	5.0
1988	17.5	5.0	22.4	3.7	2.0	5.7
1989	16.6	4.7	21.3	4.5	2.0	6.5
1990	15.5	4.8	20.2	5.2	2.0	7.1
1991	16.1	4.4	20.4	6.5	1.8	8.3
1992	18.6	3.2	21.8	7.3	1.6	8.9
1993	18.7	3.3	22.0	7.6	1.6	9.2
1994	18.7	3.5	22.2	7.9	1.7	9.6
1995	18.6	3.8	22.4	8.1	1.7	9.8
1996	18.7	4.2	22.9	8.4	1.6	10.0
1997	18.6	4.6	23.2	8.7	1.6	10.3
1998	18.8	4.7	23.5	9.1	1.6	10.7
1999	18.7	4.9	23.6	9.5	1.7	11.2

Note: Network affiliated stations include FOX affiliates beginning with the fourth quarter of 1991. Projections for 1995-1999 include UPN and The WB affiliates.

Source: Veronis, Suhler & Associates, Wilkovsky Gruen Associates and A.C. Nielsen.

**Table 2.2**  
**Prime Time Ratings- Broadcast Networks and Cable Channels- 5/95**

<b>Broadcast Networks</b>		
	ABC	8.9
	CBS	8.5
	NBC	9.2
	FOX	5.1
<b>Cable Channels</b>		
	USA	2.6
	TBS	2.0
	Nick at Nite	1.5
	ESPN	1.4
	Lifetime	1.3
	CNN	1.2
	Discovery	1.2
	A & E	1.1
	TNN	1.1
	The Family Channel	1.1

Source: *Variety* 6/12-18/95, and Paul Kagan Associates, *Cable TV Programming*, 5/22/95.

**Table 2.3 Shares of Total Day Television Viewing in All TV Households**

Year	Network-Affiliated Stations	Independent Stations (excluding Superstations)	All Broadcast Television Stations	Non-Premium Cable Prog. Services	Premium Cable Prog. Services	All Cable Channels
1984	69.3%	17.0%	86.3%	7.2%	6.4%	13.7%
1985	68.8	16.4	85.2	8.2	6.6	14.8
1986	68.8	17.0	85.8	8.9	5.3	14.2
1987	64.9	17.2	82.1	11.4	6.5	17.9
1988	62.1	17.6	79.7	13.1	7.2	20.3
1989	59.9	16.9	76.7	16.1	7.2	23.3
1990	56.6	17.4	74.0	18.8	7.1	26.0
1991	56.0	15.2	71.1	22.8	6.1	28.9
1992	60.5	10.5	71.0	23.8	5.2	29.0
1993	60.0	10.6	70.5	24.4	5.1	29.5
1994	58.9	11.1	69.9	24.9	5.2	30.1
1995	57.8	11.8	69.6	25.2	5.3	30.4
1996	56.8	12.8	69.6	25.5	4.9	30.4
1997	55.5	13.7	69.3	26.0	4.8	30.7
1998	55.0	13.7	68.7	26.6	4.7	31.3
1999	53.7	14.1	67.8	27.3	4.9	32.2

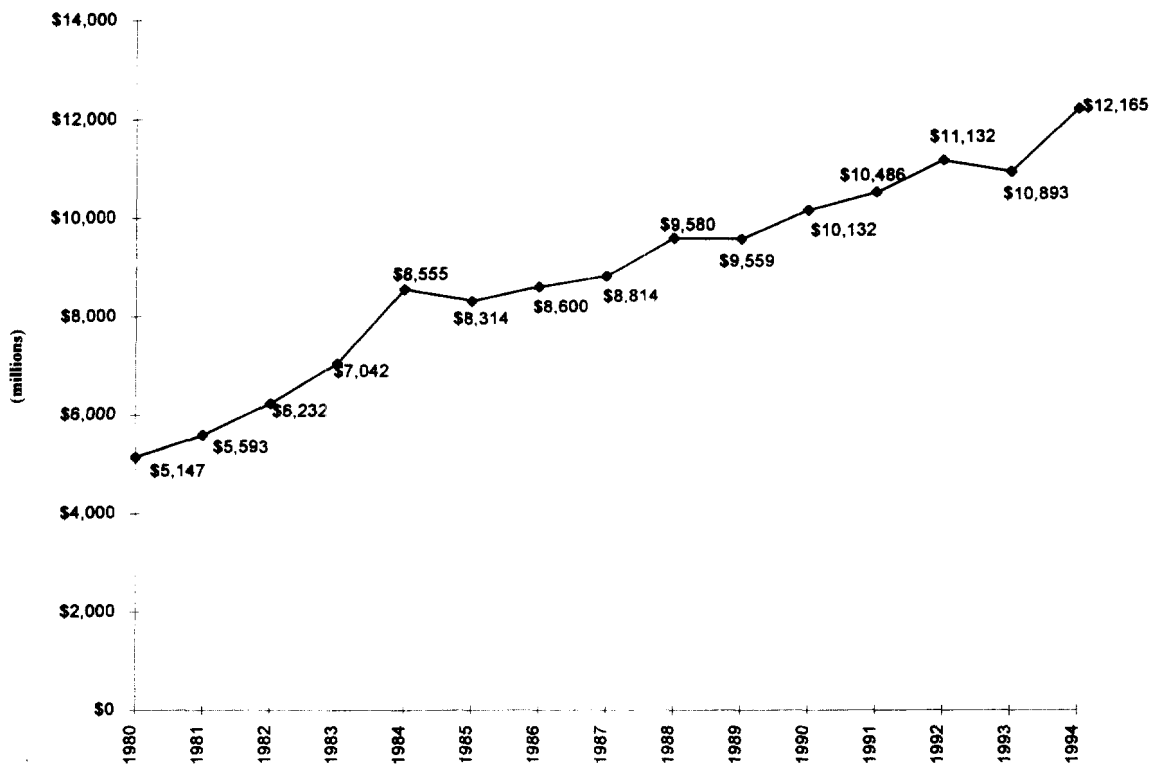
Note: Network affiliated stations include FOX affiliates beginning with the fourth quarter of 1991. Projections for 1995-1999 include UPN and The WB affiliates.

Source: Veronis, Suhler & Associates, Wilkovsky Gruen Associates and A.C. Nielsen.

More importantly, the value of the networks and network broadcast stations has increased throughout the advent and development of the cable industry. Network television revenues reached approximately \$12.2 billion in 1994, increasing by nearly 50% from 1984. (Figure 2.1) Moreover network advertising revenue growth is expected to climb. In *1995 Communication Industry Forecast*, the investment banking firm Veronis, Suhler & Associates predicts "stable ratings, a growing audience, a reasonably healthy advertising environment should lead to faster-growing advertising for the broadcast networks over the next five years." For 1994-1999, Veronis Suhler forecasts Network advertising to rise at a 4.8% compound annual rate, an improvement over the annual increase over the last five years.

Thus despite some network audience erosion to new cable channels and cable's growing importance as an advertising medium, the broadcast television industry has flourished during the past decade-- a period of cable's maturation and greatest growth-- and broadcast networks and stations are projected to continue to flourish into the 21st century.

**Figure 2.1 Network Television Revenues, 1980-1994**



Note: Beginning in 1993, the Fox Network is included.

Source: Veronis Suhler & Associates

*\*Note: Dollars in Figure 2.1 have not been adjusted for inflation.*

Table 2.4 presents additional data which demonstrate broadcast television's growing appeal (as measured by hours of usage) over the past several years, despite the simultaneous growth of cable television's appeal to viewers. As shown, the hours per person annually using broadcast television have grown since 1992, and are forecast to continue to grow through 1998. The usage of cable television has grown every year since 1990 and is forecast to continue through 1999.



**Table 2.4 Hours Per Person Per Year Using Media**

**TELEVISION**

<u>Year</u>	<u>Network Affiliated Stations*</u>	<u>Independent Stations *</u>	<u>Total Broadcast Television</u>	<u>Non-Premium Cable Channels **</u>	<u>Premium Channels</u>	<u>Total Cable TV</u>	<u>Total TV</u>	<u>Radio</u>	<u>Recorded Music</u>
1989	835	345	1,180	210	95	305	1,485	1,155	220
1990	780	340	1,120	260	90	350	1,470	1,135	235
1991	838	227	1,065	340	90	430	1,495	1,115	219
1992	914	159	1,073	359	78	437	1,510	1,150	233
1993	920	162	1,082	375	78	453	1,535	1,082	248
1994	919	172	1,091	388	81	469	1,560	1,102	294
<b>Projections</b>									
1995	913	185	1,098	398	84	482	1,580	1,092	317
1996	909	205	1,114	408	78	486	1,600	1,087	323
1997	896	221	1,117	420	78	498	1,615	1,077	343
1998	899	224	1,123	435	77	512	1,635	1,067	365
1999	884	231	1,115	449	81	530	1,645	1,060	387

Source: Veronis, Suhler & Associates, Wilkofsky Gruen Associates

\*Affiliates of the Fox network are counted as network affiliates for part of 1991 and all of 1992, but as independent stations in earlier years.

\*\*Includes satellite-delivered non-premium channel TBS beginning in 1992



## **Case #2 DBS (Direct Broadcast Satellite) and Cable Television**

DBS (Direct an industry Broadcast Satellite)'s impact on the cable industry provides another example of a new technology entering successfully, yet not damaging the existing technology. DBS refers to the use of communications satellite in geostationary orbits to transmit multiple channels of video programming to homes equipped with small receiving antennas or dishes. In Europe, the service is referred to as DTH.

DBS technology is different from and in some respects superior to cable television. DBS's digital technology provides sharper pictures and superior sound than available on all but the most advanced cable systems. However, the cost advantage resides with cable.

Three digitally compressed DBS services were launched in the U.S. in the summer of 1994: DirecTV, owned by Hughes Communications, Inc., Primestar, owned by a consortium of cable multiple system operators (MSOs) and United States Satellite Broadcasting (USSB), owned by Hubbard Broadcasting. The three services offer over 100 different channels of programming, including all channels offered by cable systems, additional niche-focused programming, and multiple channels of pay-per-view.

Although DBS has only been available for one year, it is worthwhile examining because of the close parallels which can be drawn between the DBS and Satellite DARS industries. Both are new technologies which offer essentially similar services as the existing providers, cable television and broadcast radio stations, but utilize a more sophisticated digital technology for delivery.

While DBS offers more channels than cable and digital quality reception, the cable industry has not as yet lost market share to the new satellite service providers. DBS subscribers numbered approximately one million by mid-1995. (Table 2.5) Nevertheless, cable penetration, subscriber and advertising revenue increased during the past year. Cable operator revenues took a slight dip in 1994 as was expected with re-regulation of cable rates. (Figures 2.2, 2.3, 2.4 and 2.5).

MTA-EMCI forecasts approximately 6.5 million DBS subscribers by 2000, and cable subscribers projections estimate continued growth with 62.5 million subscribers in 2000. (Figures 2.6 and 2.7).

If projections from MTA-EMCI and other sources are borne out, DBS will emerge as a successful new television technology during the next five years, competing with cable television for subscribers, and to a lesser extent, advertising. DBS's growth, projected to reach over 6 million subscribers by 2000, will inevitably reduce the growth of cable television revenue. Nevertheless, the adverse impact of DBS on cable is likely to be minimal. The cable industry is projected to continue to grow, to develop and market new services and to perform well financially.

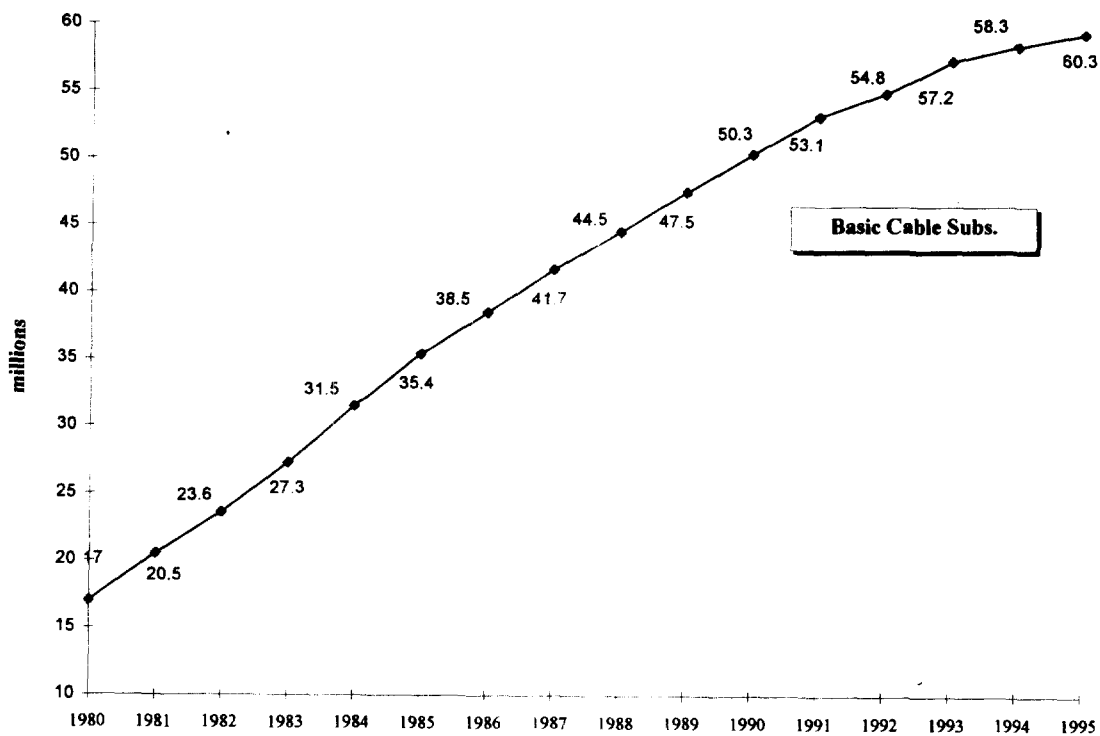
The introduction of a new technology, DBS, benefits consumers by providing a viable competitive alternative to cable, just as Satellite DARS will offer more listeners a viable competitive alternative to terrestrial radio.

**Table 2.5 DBS Subscribers 4/95**

Provider	Subscribers
Primestar	385,000
DirectTV (and USSB)	550,000

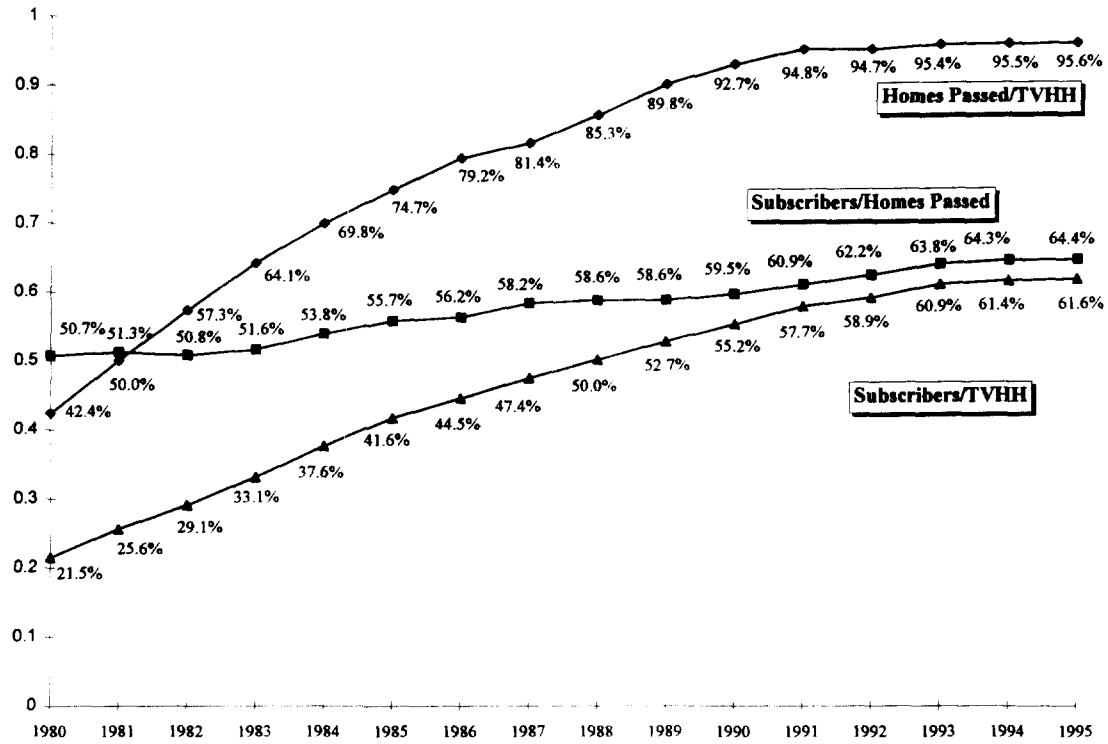
Source: Sky Report, May 1995.

**Figure 2.2 Total Basic Cable Subscribers, 1980-1995**



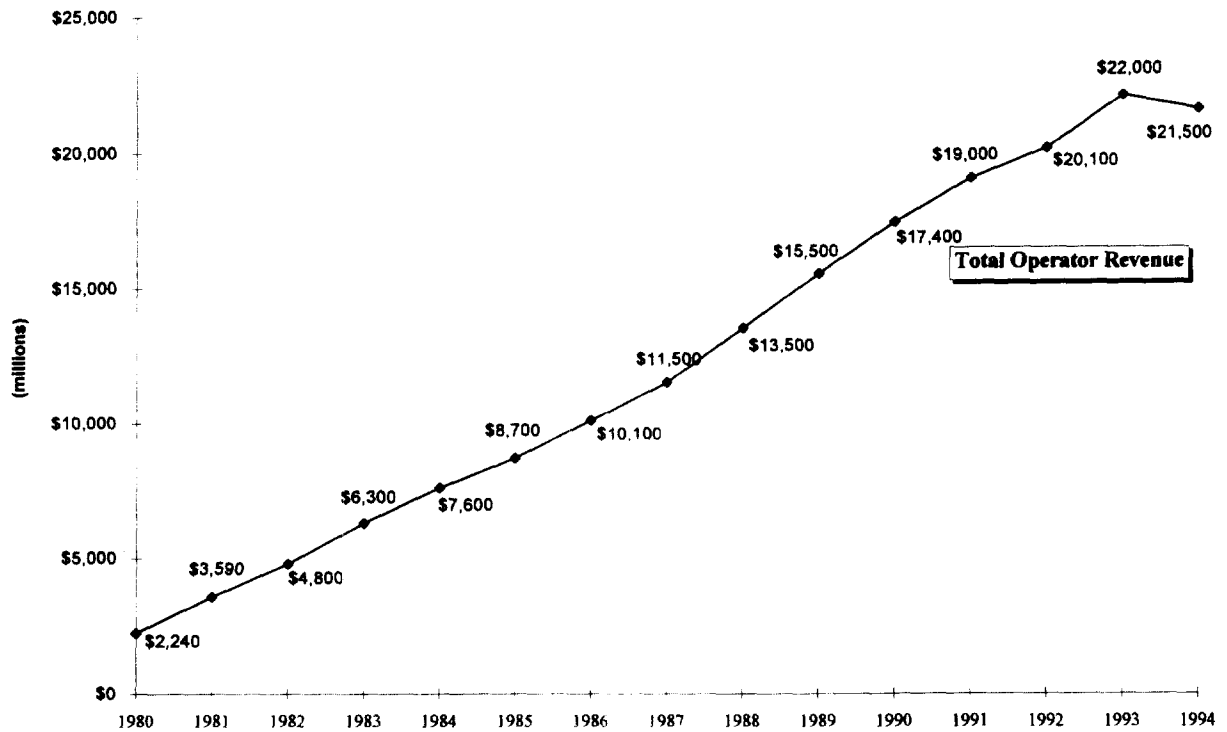
Source: MTA-EMCI, *Cable Trends: 1980-2000*.

**Figure 2.3 Cable TV Penetration, 1980-1995**



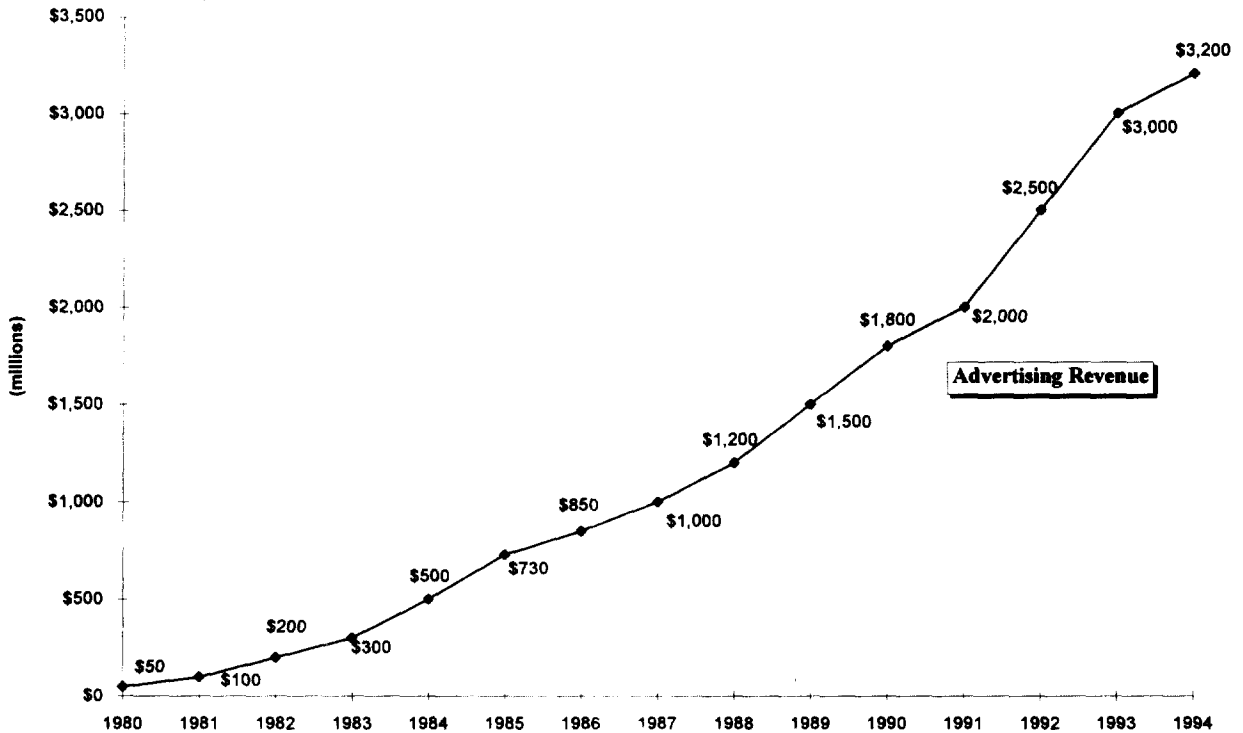
Source: MTA-EMCI, *Cable Trends: 1980-2000*.

**Figure 2.4 Total Cable Operator Revenue, 1980-1995**



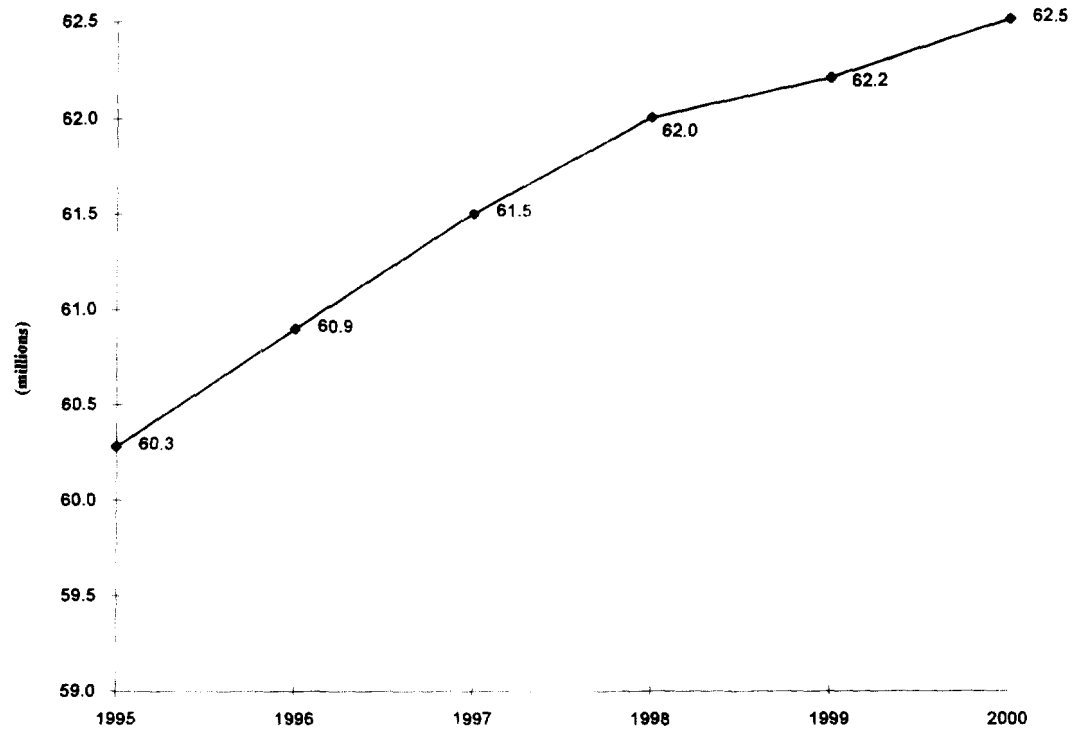
Source: MTA-EMCI, *Cable Trends: 1980-2000*.

**Figure 2.5 Cable Advertising Revenue, 1980-1995**



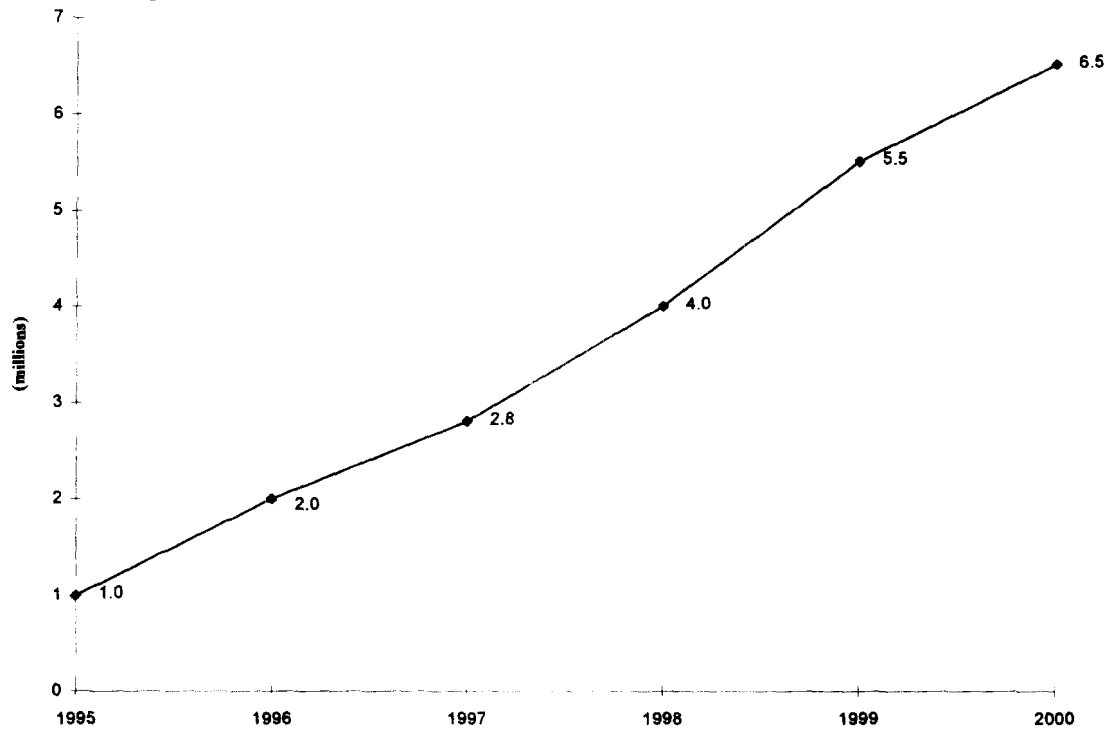
Source: MTA-EMCI, *Cable Trends: 1980-2000*.

**Figure 2.6 Cable Subscriber Projections, 1995-2000**



Source: MTA-EMCI, *Cable Trends: 1980-2000*.

**Figure 2.7 DBS Subscriber Projections, 1995-2000**



Source: MTA-EMCI and Veronis, Suhler & Associates.

## **9. Qualifications of Malarkey-Taylor Associates-EMCI**

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MTA is the oldest consulting firm specializing in the fields of cable television, broadcasting, paging, mobile radio and cellular telephone. Our organization is composed of a multi-disciplinary team of professionals who combine academic training in accounting, finance, engineering, marketing, management, economics and law with many years of experience solving problems for hundreds of clients in both the public and private sectors.

A large portion of our financial, engineering and managerial professionals' time is devoted to the appraisal of cable systems, broadcasting stations, paging systems, mobile radio systems and cellular telephone systems. Since 1964, we have appraised hundreds of properties for purposes of financing, ownership transfers, and estate planning and probating. MTA has supplied expert testimony on system values in court and other legal hearings.

Malarkey Taylor Associates was founded in 1966 by Martin F. Malarkey and Archer S. Taylor as a cable television consulting firm. Mr. Malarkey and Mr. Taylor had established reputations as cable pioneers and prominent consultants, and their firm quickly became the premier consultancy in the emerging cable TV industry. In 1988 Malarkey Taylor Associates merged with Economic Consultants International, Inc. (EMCI), the country's leading provider of wireless consulting services, data and publications. The merged company, MTA-EMCI, provides research and consulting services to leading multi-nationals in every part of the world.

In addition to conducting market research, financial, and economic analysis, the Telecommunications and Technology Group (TTG) of MTA-EMCI focuses on providing strategic engineering support for emerging technologies including PCS/PCN, interactive television, telephony over cable television, and other related wireless and wireline technologies.

With headquarters in Washington, DC, MTA-EMCI has offices in London and Singapore as well as affiliate relationships in Japan, Korea, and Mexico City.





Before the  
FEDERAL COMMUNICATIONS COMMISSION

In the Matter of	)	
	)	
Amendment of the	)	General Docket
Commission's Rules with	)	No. 90-357
regard to the Establishment	)	
and Regulation of New	)	
Digital Audio Radio Services.	)	

TO: The Commission

STATEMENT OF  
PRIMOSPHERE LIMITED PARTNERSHIP

Primosphere Limited Partnership ("Primosphere"), by its attorneys, hereby submits its response to a document called "The Truth About Satellite Radio" submitted to the Commission on December 27, 1994 by the National Association of Broadcasters with regard to the above-captioned proceeding.

Primosphere is one of the four pending applicants for authorization to construct and operate satellite-based digital audio radio service ("Satellite DARS") systems. Primosphere filed its application on December 15, 1992, in response to the Commission's issuance of a "cut-off" notice.<sup>1</sup> At about the same time the Commission issued its "cut-off" notice and parties filed applications in response thereto, the Commission issued its "Notice of Proposed Rulemaking and Further Notice of Inquiry" in the above-captioned proceeding.<sup>2</sup> Since that time -- the fourth quarter of 1992 -- virtually nothing has happened at the Commission regarding

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<sup>1</sup> "Digital Audio Radio Service Satellite System Application Acceptable for Filing -- Cut-off Established for Additional Applications," released Oct. 13, 1992.

<sup>2</sup> 7 FCC Rcd. 7776 (released Nov. 6, 1992).

Satellite DARS. The Commission's unwillingness to act on the allocation proposed in this rulemaking proceeding has meant that there has been no action on the four remaining Satellite DARS applications (this, despite the fact that the four applicants paid the Commission almost \$450,000 in "processing" fees).<sup>3</sup>

The Commission's reluctance to allocate spectrum for Satellite DARS seems to be motivated only by the arguments of the National Association of Broadcasters ("NAB") that Satellite DARS will harm local radio broadcasters. The NAB's latest submission is a continuation of its efforts to derail Satellite DARS. Primosphere asks that the Commission consider Primosphere's present response to the NAB's recent filing.

Attached hereto is a Statement of one of Primosphere's owners, Mr. Clifford N. Burnstein, entitled "Confessions of a Satellite DARS Applicant." Primosphere's only owners are Mr. Burnstein and Peter D. Mensch. Messrs. Burnstein and Mensch also own five radio stations and are in the process of acquiring a sixth; thus, they are as committed to the future of terrestrial radio broadcasting as the NAB or any of its members. Because Primosphere is owned entirely by radio broadcasters, and because Primosphere is the only Satellite DARS applicant which proposes entirely a non-subscription, advertiser-supported service, Primosphere believes

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<sup>3</sup> See "Digital Audio Radio Service Satellite Systems Applications Launch Fee Required," released December 9, 1992. That notice established a January 5, 1993 deadline for launch fees of \$70,000 per satellite. The four pending applicants propose a total of six satellites. Prior to the submission of this \$420,000 in launch fees, the applicants had submitted initial filing fees of \$2,030 per satellite.

that the Commission would benefit from consideration of this submission and Mr. Burnstein's attached Statement.

It should also be pointed out that Mr. Burnstein is a demographer by training. He received a Bachelor of Arts degree in Economics from the University of Pennsylvania in 1969 and an M.A. in Demography from the same institution in 1971. He also undertook post-master's degree studies in demography at the University of Pennsylvania. Messrs. Burnstein and Mensch have worked together in the music business for many years; and since 1982 they have owned and managed Q Prime Inc., which manages several well-known music groups and individual performers. Thus, their knowledge of the economics of the domestic broadcasting business is vast.

Mr. Burnstein's attached Statement demonstrates that: (1) Satellite DARS will have absolutely no detrimental effect on terrestrial radio for at least ten years because it will take that long for Satellite DARS to begin operating and gaining any significant level of consumer acceptance; (2) even after Satellite DARS begins operating and manufacturers start manufacturing DARS receivers, and consumers start purchasing them, the only possible advertising revenue that Satellite DARS could take from local broadcasters is national advertising; and (3) the listeners most likely to receive Satellite DARS already are not listening to their local radio stations, so there will be no real harm to local radio broadcasters, even on a "worst-case" analysis from their point of view (and a "best-case" analysis for Satellite DARS).

As an additional introduction to Mr. Burnstein's attached Statement, the following historical perspective is provided. Cable

TV first emerged in the late 1950s. Once TV broadcasters realized that cable TV could do more than provide improved reception of local TV stations, the broadcasters, led by the NAB, were able to convince the FCC to impose a freeze on the development of cable TV while the FCC "studied" the potential impact of cable TV on over-the-air television.<sup>4</sup> In early 1972 the FCC finally lifted the freeze, to a limited degree, by allowing cable systems to carry a limited number of signals from "distant" TV stations.<sup>5</sup> Eventually, over the continued protestations of the NAB, the deregulatory environment of the late 1970s and early 1980s led to virtually a total deregulation of cable TV.

The deregulation of cable TV has led us to the point, now, where cable TV is available to more than 95 percent of U. S. households.<sup>6</sup> Obviously, cable TV is desired by consumers; and the high penetration that cable has achieved has provided an incidental benefit that few people anticipated in cable's early days -- cable now is on the verge of competing with local telephone companies for local exchange service. And what has happened to the over-the-air TV industry in light of the successful maturation of cable TV?

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<sup>4</sup> See Second Report and Order, 2 FCC 2d 725 (1966); Notice of Inquiry and Notice of Proposed Rule Making, 1 FCC 2d 453 (1965); First Report and Order, 38 FCC 683 (1965).

<sup>5</sup> Cable Television Report and Order, 36 FCC 2d 143 (released Feb. 3, 1972).

<sup>6</sup> Speech of FCC Chairman Reed E. Hundt to the Washington Cable Club, Dec. 20, 1994.

- In 1965 there were 668 TV stations on the air; in 1994 there are more than 1,500.<sup>7</sup>
- In 1965 over-the-air television viewership was dominated by the oligopoly of the three TV networks, and PBS did not exist. In 1994 we have a successful fourth commercial network; PBS has developed into an excellent alternative to the commercial networks; and two new over-the-air commercial networks are being launched (United Paramount and Warner).
- Over-the-air television is more successful than ever, despite the multi-channel competition of cable TV and the very high household penetration of VCRs.

If the goal of government, in the regulation of the communications industries, is to ensure diversity, then government has succeeded in the case of television (after the false start in the 1960s and early 1970s of attempting to halt the development of cable TV). Consumers now have multiple choices of video programming sources, including numerous specialized programming channels. The "distant signal" limits and the "leap-frogging" and "anti-siphoning" rules of the 1960s and early 1970s now seem almost humorous -- dim reminders of the "old days" when the NAB controlled the FCC.

Is there any evidence that radio would fare differently than its TV cousin because of Satellite DARS? Clearly consumers desire digital audio, and they will obtain it from somewhere, even if

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<sup>7</sup> Television & Cable Factbook, 1994 ed., at C-1 (figures as of January 1).

Satellite DARS never develops as an alternative. But consumers also want the local news, weather, traffic reports, talk shows, etc. that only local radio can provide. The only stations who should fear a digital competitor are those who do little more than broadcast, in analog mode, music which they receive from satellite services. Is there any valid policy reason to deprive the public of a new technology in order to protect such broadcasters?

Primosphere believes, and demonstrates in the attached Statement of Clifford Burnstein, that Satellite DARS will not harm terrestrial radio.

Therefore, Primosphere respectfully requests that the Commission:

1. Consider this filing and Clifford Burnstein's attached Statement; and
2. Expeditiously proceed to allocate 2310-2360 MHz for Satellite DARS.

Respectfully submitted,

PRIMOSPHERE LIMITED PARTNERSHIP

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January 3, 1995

HML-03102

**STATEMENT OF CLIFFORD N. BURNSTEIN:  
CONFESSIONS OF A SATELLITE DARS APPLICANT**

I, Clifford N. Burnstein, hereby submit this statement to the Federal Communications Commission with regard to FCC Docket No. 90-357.

Primosphere Limited Partnership ("Primosphere") is a proponent of Satellite DARS and submitted comments in Docket 90-357. Mr. Peter D. Mensch and I are Primosphere's only limited partners and are the only owners of the corporation which is Primosphere's sole general partner. Mr. Mensch and I are that corporation's co-presidents.

I received a Bachelor of Arts degree in Economics in 1969 and a Master of Arts degree in Demography in 1971, both from the University of Pennsylvania. I also undertook post-masters degree work in demography from the University of Pennsylvania, completing all the course work necessary for a doctorate degree.

Since completing my academic work, I have been in the music business; and since 1980 I have managed professional music groups. Mr. Mensch and I formed our own company, Q Prime Inc., in 1982 to manage rock groups, and that is what we have been doing, professionally, since then.

In the late 1980s we expanded into broadcast station ownership. We now own five radio stations in California and are in the process of acquiring a sixth, which we currently program pursuant to a program service agreement.

It's now been more than two years since Peter Mensch and I filed our Satellite DARS application. We thought that a free

national radio system of many specialized formats and near-CD quality sound would serve the public interest. The NAB, on the other hand, contends that Satellite DARS will ruin our current terrestrial broadcasting system.

I'm going to crunch some numbers and engage in conservative speculation to try to quantify the effect of Satellite DARS on "radio as we know it." We have already put our money where our mouths are. Mensch and I owned three Central California FM stations when we filed our Satellite DARS application in late 1992. This year we've doubled up: we now own five California FM stations and have contracted to acquire a sixth. We obviously believe in the future of terrestrial radio. Here's our analysis.

**LONG TIME 'TIL LAUNCH.** Let's assume spectrum is allocated in 1995 and authorizations are granted in 1996 (a good start). It took DBS more than ten years from initial authorization to launch. Maybe we'll do better. Our best guess is somewhere between 2002 and 2006.

**HOUSEHOLD PENETRATION DOES NOT OCCUR OVERNIGHT.** Satellite radio is basically a line-of-business extension of terrestrial radio. You'll need a new radio and a satellite dish to receive it. Here are some modern electronic and communication line-of-business extensions that have been extremely successful: cable TV, audio cassettes and compact discs. These technologies reached 40-50% of households in ten years or so. Other products took longer to catch on: Only 325,000 color televisions were sold in the first five



years of availability.<sup>1</sup> It took FM radio about 30 years to reach 50% of radio listenership.<sup>2</sup> It took commercial radio in the United Kingdom 21 years to reach parity with government stations.<sup>3</sup> Even with these successful technologies, consumer awareness took a long time to build.

**RADIO IS PRIMARILY A LOCAL ADVERTISING MEDIUM.** When we filed in 1992, we pointed out that national advertising constituted only about 20% of all radio station revenues. Latest estimates show national advertising down to 17-18%.<sup>4</sup> Furthermore, the large markets are the biggest percentage recipients of national advertising (Exhibit 1): A top 10 market gets about 23% national while a market below 200 gets only 12-13%. I've attached a quotation from the chairman of a national advertising rep firm that will illustrate why national advertising is declining (and will continue to do so) in importance and why the big stations benefit the most (Exhibit 2).

**RADIO IS A GREAT BUSINESS.** 1994 has been radio's best year ever: It's widely noted that revenues rose above \$10 billion, including "network" revenues. I back "network" numbers out of my calculations because these revenues do not benefit local radio

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<sup>1</sup> Tom Lewis, Empire of the Air: The Men Who Made Radio (1991), at 344.

<sup>2</sup> Arbitron data samples by Jim Duncan. Note: Duncan estimates that FM had 5% listeners after 10 years and 20% after 20 years.

<sup>3</sup> Music Week, Nov. 5, 1994.

<sup>4</sup> Average 1993-94 estimates of Radio Advertising Bureau, Veronis Suhler & Assoc., and McCann-Erickson.